

showing. Broader geographic deaveraging authority (beyond the existing density pricing zone system) would give the ILECs substantially more pricing freedom than they now have, and would therefore be a valuable “carrot” to help induce greater ILEC cooperation with local competition prerequisites.

### CONCLUSION

As the Commission moves forward to reform its access rules, it must do all that it can to promote the local competition that provides the only means to bring market pressures to current access rates. At the same time, the Commission should deny the ILECs any premature pricing flexibility that would give them a “hunting license” to block incipient competition wherever it might occur. And the Commission should preserve the ability to mandate broader access rate prescription at a later date if the promise of the 1996 Act is never met. Until and unless today’s

access customers have a reasonable opportunity to supply their own access, they will remain captive to the ILECs, and the ILEC access bottleneck will continue unabated.

Respectfully submitted,

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## **ATTACHMENT A**

## SUMMARY

### A. WorldCom's Perspective on Access Reform

- **Access reform should promote consumers' closely inter-related interests in lower long distance rates and future local competition.**
  - Access is fundamentally different from end user services: access is primarily a production input that carriers use to create end user services.
  - Today, monopoly ILEC access charges artificially inflate long distance rates for all consumers.
  - For structural reasons, “access competition” per se is not possible in ways that would reduce the access costs of stand-alone IXCs. Rather, ILECs will face pressure on their access rates only with the development of local competition, and the ability of competing carriers to supply access to local customers they have won from the ILECs.
- **Access reform should make use of competitive pressure on access rates where possible, recognizing that some access rate elements are much less subject to such pressures.**
  - Charges to end users: Incumbent LECs and new entrants will compete directly for end user business, so charges to end users are likely to become competitive -- if local competition develops.
  - Charges to carriers:
    - Special access and dedicated transport -- should become competitive if the 1996 Act is implemented successfully.
    - Originating switched access charges -- will remain a bottleneck for stand-alone IXCs, and will not become competitive per se. But will become avoidable to the extent IXCs can self-supply originating access through vertical integration, as full-service local and long distance carriers, or through special access.
    - Terminating switched access charges -- are not likely to be subject to competition in the foreseeable future, because the party placing the call -- or that party's IXC -- has little or no ability to influence the called party's choice of local carrier.
    - Bulk billed-type charges -- charges imposed whether or not a carrier uses ILEC access by definition could never become competitive.

## **B. Governing Principles for Market-Driven Access Reform**

### **1. Local competition is the best way to discipline incumbent LECs' access rates and achieve long-term access reform.**

- In the short run, the Commission must make rate structure reforms that facilitate local competition, and prescriptive rate level changes targeted to rates that will not be subject to competitive pressure. Comprehensive rate level prescriptions can be avoided initially.
- In the somewhat longer term, the Commission should use both “carrots” and “sticks” to induce the incumbent LECs to provide interconnection and unbundled network elements at reasonable rates, terms, and conditions.
  - > The “carrot”: incumbent LECs that have fully satisfied the competitive checklist should be allowed certain forms of pricing flexibility.
  - > The “stick”: if an incumbent LEC has not fully satisfied the checklist by a date certain, the Commission should proceed with aggressively prescriptive access rate reductions.

### **2. No incumbent LEC revenue stream should be guaranteed or shielded from competition.**

- A guaranteed revenue stream would be inconsistent with market-based access reform; it would eliminate competitive discipline for such revenues, and thus perpetuate above cost access charges.
- It would also create a formidable barrier to entry, giving incumbent LECs a revenue stream not available to their competitors that they could use to cross-subsidize competitive services.
- Under the 1996 Act, the incumbent LECs have no legal right or policy basis for guaranteed recovery of past investments.

### **3. The Commission must be vigilant to prevent discrimination and other anti-competitive conduct by the incumbent LECs during the transition to competition.**

- During the transition period, the Commission must not allow forms of pricing flexibility that would enable incumbent LECs to discriminate in favor of their affiliates or other favored customers, thus forestalling local competition without bringing overall access rates closer to cost.
- Such discriminatory forms of pricing flexibility include contract tariffs, competitive response tariffs, additional authority for volume discounts or discounts for terms longer than 3 years, or deregulation of “new” services.

**C. Recommended Baseline Access Rate Structure and Rate Level Changes to Set the Stage for Local Competition.**

• **Rate Structure:**

Recover the costs of dedicated facilities through non-traffic sensitive, flat rates:

– **Subscriber loops:**

- > Eliminate the per-minute carrier common line charge.
- > Eliminate the cap on the subscriber line charges for all lines, or at least for business and additional residential lines.
- > Recover any remaining loop costs as flat rate from IXC's; forbear on Section 254(g) to permit IXC's to recover on a geographically deaveraged basis.

- **Line-side port component of local switching:** Flat rate charge either on end users or on IXC's (with forbearance on Section 254(g)).

• **Rate Level:**

Initial prescriptive rate level changes should be focused on elements least subject to competitive pressure. We recommend that the Commission initially set rates based on forward-looking economic costs only for the following:

- **Terminating Local Switching** -- because terminating switched access rates are least likely to become subject to competitive pressure.
- **Tandem Switching** -- in response to the CompTel v. FCC remand.
- **Line-Side Port Component of Local Switching** -- to initialize a new rate element and adjust the per-minute charge accordingly.

• **Transport Interconnection Charge:**

- Eliminate the TIC immediately, or as soon as possible.
- Take first from the TIC all access rate reductions due to universal service, price caps, and end of equal access reconfiguration amortization; remove SS7 costs, retail marketing costs, and costs of non-regulated facilities from the TIC.
- Modify the rate structure of any residual TIC to be a flat rate charge per presubscribed line.

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**D. Manage the Transition to Competition By Offering Incentives to ILECs**

- **Phase I -- "Potential Competition"**: Incumbent LECs that are providing unbundled network elements under pro-competitive terms and conditions and at forward-looking cost based rates, and that fully comply with other prerequisites to local competition, should be permitted certain forms of pricing flexibility:
  - At Phase I, **permit**: geographic deaveraging of all access services; term discounts of no more than 3 years; streamlined regulation of truly new services (that cannot be substituted for existing access services).
  - **Do not permit**: contract tariffs; competitive response tariffs; additional authority for volume discounts or discounts for terms longer than 3 years; or deregulation of services that can be substituted for existing services.
  - Competitively neutral universal service mechanisms should be fully implemented and the TIC should be eliminated before Phase I measures are allowed.
- **Phase II -- "Substantial Full-Service Competition"**: Incumbent LECs that can show an economically substantial degree of **full-service competition**, measured using the Herfindahl-Hirshman Index, should be allowed additional pricing flexibility.
  - But the Commission should not deregulate the rate structure rules for dominant ILECs (especially for terminating access).
  - The Commission could consider subdividing Phase II into two intermediate phases ("emerging full service competition" and "substantial full service competition"). Such distinctions could permit a more tailored approach to further ILEC rate regulation.
- If an incumbent LEC has not fully complied with the checklist of local competition prerequisites by Jan. 1, 1999, the Commission should prescribe all of its access rates based on forward-looking economic cost.

**E. Retain the Rule that Information Service Providers Need Not Pay Interstate Carrier Access Charges.**

**TABLE 1: SUMMARY OF WORLDCOM'S PROPOSED  
ACCESS CHARGE REFORM TRANSITION PLAN  
BASED ON THE TWO-PHASED APPROACH DESCRIBED IN THE NOTICE**

<b>Phase of Competitive Development</b>	<b>Triggering Conditions</b>	<b>Regulatory Changes</b>
Baseline	None.	<ul style="list-style-type: none"> <li>• Baseline rate structure changes.</li> <li>• Prescriptive rate level changes for tandem switching, terminating local switching, and local switch port charges.</li> <li>• Eliminate the TIC (or rapidly phase it out).</li> </ul>
Phase I: "Potential Competition"	<ul style="list-style-type: none"> <li>• Unbundled network element prices based on geographically deaveraged, forward-looking economic costs -- and offered under pro-competitive terms and conditions.</li> <li>• Cost-based rates for local transport &amp; termination.</li> <li>• Resale rates based on retail less avoided cost.</li> <li>• Network elements and services provisioned rapidly and effectively.</li> <li>• Dialing parity, number portability, access to rights of way, and open and non-discriminatory network standards and protocols.</li> <li>• Full implementation of competitively neutral universal service mechanisms and TIC eliminated.</li> <li>• Credible and timely enforcement of pro-competitive rules.</li> <li>• Cost-based and non-discriminatory non-recurring charges.</li> </ul>	<ul style="list-style-type: none"> <li>• Geographic deaveraging of carrier access charges and SLC.</li> <li>• Term discounts (up to 3 years).</li> <li>• Streamlined regulation of new services if cannot be substituted for existing services.</li> <li>• Differential pricing of carrier access services for traffic that originates from or terminates to residential, single-line business, or multi-line business customers.</li> </ul>
Phase II: "Substantial Competition"	<ul style="list-style-type: none"> <li>• General market conditions that the Commission found before streamlining AT&amp;T's regulation in 1991.</li> <li>• Herfindahl-Hirshman Index level for the particular local market that is at least as low as that in the long-distance service markets for which AT&amp;T's regulation was streamlined in 1991.</li> </ul>	<ul style="list-style-type: none"> <li>• Volume discounts.</li> <li>• Term discounts for any length term.</li> <li>• Contract tariffs and competitive response tariffs.</li> <li>• Streamlined regulation of "new" services that can be substituted for existing services.</li> <li>• Elimination of separate baskets, service categories, and rate structure rules for trunking and local switching.</li> </ul>
Absence of Potential Competition	<ul style="list-style-type: none"> <li>• Conditions for Phase I not satisfied by Jan. 1, 1999.</li> </ul>	<ul style="list-style-type: none"> <li>• Prescription of all access charges at forward-looking economic cost.</li> </ul>



**TABLE 2: AN EXAMPLE OF AN ALTERNATIVE  
ACCESS CHARGE REFORM TRANSITION PLAN  
USING MORE THAN TWO PHASES**

Phase of Competitive Development	Triggering Conditions	Regulatory Changes
Baseline	None.	<ul style="list-style-type: none"> <li>• Baseline rate structure changes.</li> <li>• Prescriptive rate level changes for tandem switching, terminating local switching, and local switch port charges.</li> <li>• Eliminate the TIC (or rapidly phase it out).</li> </ul>
Phase I: "Potential Competition"	<ul style="list-style-type: none"> <li>• Full implementation of all items on competitive checklist (see Table 1).</li> <li>• Full implementation of competitively neutral universal service mechanisms and TIC eliminated.</li> <li>• Credible and timely enforcement of pro-competitive rules.</li> <li>• Cost-based and non-discriminatory non-recurring charges.</li> </ul>	<ul style="list-style-type: none"> <li>• Geographic deaveraging of carrier access charges and SLC.</li> <li>• Term discounts (up to 3 years).</li> <li>• Differential pricing of carrier access services for traffic that originates from or terminates to residential, single-line business, or multi-line business customers.</li> </ul>
Phase II-A: "Emerging Full-Service Competition"	<ul style="list-style-type: none"> <li>• Competitive presence test -- availability of local telephone service from facilities-based competitors to a certain minimum percentage of both business and residential customers throughout the relevant geographic area</li> </ul>	<ul style="list-style-type: none"> <li>• Streamlined regulation of new services if cannot be substituted for existing services.</li> <li>• Term discounts for any length term.</li> <li>• Volume discounts with cost showing justifying both rate level of discounted offering and rate relationship to non-discounted offering.</li> </ul>
Phase II-B: "Substantial Full-Service Competition"	<ul style="list-style-type: none"> <li>• General market conditions that the Commission found before streamlining AT&amp;T's regulation in 1991.</li> <li>• Herfindahl-Hirshman Index level for the particular local market that is at least as low as that in the long-distance service markets for which AT&amp;T's regulation was streamlined in 1991.</li> </ul>	<ul style="list-style-type: none"> <li>• Volume discounts with less justification required.</li> <li>• Contract tariffs and competitive response tariffs.</li> <li>• Streamlined regulation of "new" services that can be substituted for existing services.</li> <li>• Elimination of separate baskets, service categories, and rate structure rules for trunking and local switching.</li> </ul>
Absence of Potential Competition	<ul style="list-style-type: none"> <li>• Conditions for Phase I not satisfied by Jan. 1, 1999.</li> </ul>	<ul style="list-style-type: none"> <li>• Prescription of all access charges at forward-looking economic cost.</li> </ul>

## **CERTIFICATE OF SERVICE**

I, hereby certify that on this 14th day of February, 1997, I caused to be served by hand delivery, copies of WorldCom's Reply Comments, addressed to the following:

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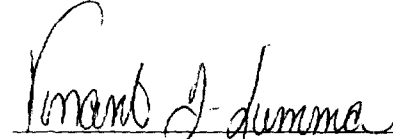
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